

WATER/SNR/MEY**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4499****September 23, 2004****R E S O L U T I O N**

(RES. W-4499), APPLE VALLEY RANCHOS WATER COMPANY (AVRW). ORDER AUTHORIZING A TARIFF DEVIATION AGREEMENT BETWEEN AVRW AND THE TOWN OF APPLE VALLEY FOR A DECREASE IN QUANTITY RATES FROM \$1.34/Ccf to \$0.45/Ccf.

SUMMARY

By Advice Letter No. 126-W, filed May 14, 2004, AVRW seeks a deviation from Schedule No. 1, General Metered Service, by modifying its List of Contracts and Deviations, to include a tariff deviation Agreement between AVRW and the Town of Apple Valley (Town). This tariff deviation is filed in accordance with Section X of General Order 96-A. The proposed Agreement will decrease the water rate from \$1.34/Ccf to \$0.45/Ccf for the irrigation of the James Woody Park (Park). This resolution authorizes the requested decrease. The rate decrease will not result in a rate of return greater than last authorized for AVRW.

BACKGROUND

AVRW, a Class A water company, produces, distributes, and sells water in the vicinity of Apple Valley, San Bernardino county. It is located in and adjacent to the Town of Apple Valley, East of Victorville and Interstate Route 15 in San Bernardino County. AVRW is a wholly owned subsidiary of Park Water Company, and is a water utility within the context of Public Utility Code Section 216, subject to the jurisdiction, control, and regulation of this Commission. At the close of 2001, AVRW was serving approximately 14,788 customers in this high desert area. It provided 14,741 acre-feet of water from its 22 wells (all located in the Mojave River Ground Water Basin) through 2,084,584 linear feet of

pipe. AVRW also serves non-potable water for irrigation purposes within the Jess Ranch Community located adjacent to the town of Apple Valley.

AVRW currently provides service to the Town for the irrigation of its Park, a recreational area covering approximately twenty-two acres located within the Town, at rates and under conditions prescribed by AVRW Schedule No. 1, General Metered Service. Recently, the Town made plans to design and construct an irrigation well at the Park. The Town's plan to construct a well in close proximity to an existing AVRW well led to discussions between the Town and AVRW. As a result of these discussions, AVRW and the Town developed a tariff deviation Agreement to allow AVRW to continue to provide service to the Town at the Park. Approval of the tariff deviation Agreement, will allow the Town to cancel its plans to construct the irrigation well at the Park.

AVRW filed Advice Letter No. 126-W pursuant to the portion of Section X of General Order No. 96-A, which provides, "Request for such authorization should be made by formal application in accordance with the Commission's Rules of Procedure, except that where the service is of minor importance or temporary in nature, the Commission may accept an application and showing of necessity by Advice Letter..."

Under the terms of the tariff deviation Agreement, AVRW will continue to provide general metered water service to the Town for the irrigation of the Park with the following deviations:

- a) The commodity rate will be \$0.45 per Ccf subject to future pro rata increases to Schedule No. 1.
- b) As a condition to service, the Town will lease to AVRW the amount of water rights used to irrigate the Park at no charge to AVRW.

Schedule No. 1, General Metered Service, was filed by Advice Letter No. 123-W on November 6, 2003, and it became effective on January 1, 2004 as authorized by D.03-08-069 to the GRC application A.02-03-046.

DISCUSSION

AVRW believes that providing service to the Town at the revised rates and under the specific conditions of the tariff deviation Agreement is beneficial to the company and its ratepayers. If the Town constructs its own well and bypasses the AVRW water system, the portion of AVRW's fixed costs currently recovered from the sales to the Park must be recovered from AVRW's remaining customer base.

The Water Division (Division) examined the cost benefit analysis provided by AVRW. In that analysis, savings to the Town and revenue loss to AVRW were compared under two scenarios: one where the Town builds the well, and the other where AVRW offers the tariff deviation. The Division, comparing the two scenarios, looked at the present worth of the two scenarios assuming a 3% discount rate and a 3% annual increases in operation and maintenance cost over a 20-year period.

The table below shows the monetary comparisons between the two scenarios.

	Town Constructs Well (Net Present Worth)	Tariff Deviation Agreement (Net Present Worth)
Savings to the Town	\$658,620	\$663,210
Revenue Loss to AVRW	-\$1,313,790	-\$663,210

The above table shows that the tariff deviation Agreement scenario provides a greater benefit for the Town and the lesser loss for AVRW.

The Division also looked at the marginal cost of production to ensure that it is below the rate AVRW is proposing to charge the Town. The unit cost of supplying water is as follows:

Purchased Power	\$66.25/AF
Leased Water Rights	\$90.00/AF
Replenishment (Standard)	\$ 3.24/AF
Replenishment (Make-up)	<u>\$ 1.32/AF</u>
Total	\$169.81/AF, which is \$0.39/Ccf

Under the tariff deviation, AVRW is to charge the Town \$0.45/Ccf, which is greater than the marginal cost of production as shown above. Therefore, this tariff deviation Agreement is a viable option.

The impact to other ratepayers with the tariff deviation is negligible. The loss of revenue to AVRW with the tariff deviation Agreement is \$22,107 per year. The adopted revenue for test year 2004 per D.03-08-069 in A.02-03-046 is \$12,900,400. This loss represents only 0.17%, which is a de minimus impact to ratepayers. AVRW is not requesting recovery of the lost revenues at this time.

The service provided by AVRW is satisfactory. During the last GRC Public Participation Hearing held on July 16, 2002, some ratepayers expressed a concern over repeated ruptured or leaking pipes and two customers raised the issue of AVRW substituting its treated drinking water with reclaimed water for non-potable uses, such as for park and recreational landscape.

NOTICE AND PROTESTS

In compliance with Section III-G of General Order 96-A, AVRW mailed a copy of Advice Letter No. 327 to the Southern California Water Company, Navajo Mutual Water Company, Town of Apple Valley, County of San Bernardino, Office of Ratepayer Advocates, and the Local Agency Formation Commission. Because approval of this advice letter will not result in an increase in rates to any of AVRW's customers, AVRW did not provide a written notification to each customer.

No protest letters were received concerning the proposed tariff deviation rate decrease.

FINDINGS

1. AVRW filed Advice Letter No. 126-W to seek deviation from Schedule No. 1, General Metered Service, and to include a tariff deviation Agreement between AVRW and the Town pursuant to Section X of General Order No. 96-A.
2. AVRW requests for a tariff deviation rate from \$1.34/Ccf to \$0.45/Ccf for the Town.
3. The Division has reviewed the advice letter and supporting workpapers and finds them reasonable.

4. The Commission finds, after investigation by the Division, that the changes hereby authorized are justified and the resulting rates are just and reasonable.
5. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Apple Valley Ranchos Water Company is authorized, to make effective the tariff deviation listed on its List of Contracts and Deviations attached to Advice Letter No. 126-W. The effective date of the contract shall be five days after the date of this resolution.
2. Within 30 days, Apple Valley Ranchos Water Company shall submit to the Water Division a copy of the signed tariff deviation Agreement between Apple Valley Ranchos Water Company and the Town of Apple Valley.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 23, 2004; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director